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May 16, 2005

AGENDA ITEM 6a (4)

TO: MEMBERS OF THE INVESTMENT COMMITTEE

I. SUBJECT: Investor Network on Climate Risk – Call For Action

II. PROGRAM: Global Equity

III. RECOMMENDATION: Staff is seeking direction as to whether the Committee

wishes to include CalPERS as a 2005 signatory on the "Call for Acton" by the Investor Network on Climate Risk.

IV. ANALYSIS:

CalPERS has been asked to be a signatory on the 2005 "Call for Action" by the Investor Network on Climate Risk ("INCR"). The "Call for Action" is an effort to address the financial risks and investment opportunities posed by climate change. Attachment 1 contains the background and ten-point plan of action as announced on May 10, 2005 at the Institutional Investor Summit on Climate Risk.

Attachment 2 contains the 23 institutional investors supporting the 2005 "Call for Action" as of May 5, 2005.

V. STRATEGIC PLAN:

This item is not a product of either the 2004-2005 Strategic or Annual Plan.

VI. RESULTS/COSTS:

Costs associated with this item are minimal.

William Sherwood-McGrew
Portfolio Manager, Corporate Governance

Mark Anson
Chief Investment Officer

A New Call for Action: Managing Climate Risk and Capturing the Opportunities to be announced by institutional investors on May 10, 2005

Background

In November 2003, in the midst of the first Institutional Investor Summit on Climate Risk, leading investors launched a new effort to address the financial risks and investment opportunities posed by climate change. The Investor Network on Climate Risk (INCR), inaugurated by ten institutional investors, announced a ten-point action plan, and began to educate other investors about climate risk.

Today we are reporting on the status of the action items included in the first action plan and announcing the next steps we intend to take on this issue.

During the past 18 months, investors have advocated and achieved increased corporate disclosure of climate risk, encouraged investment company consideration of climate risk in investment decision-making, and witnessed new government policies to set global warming emission standards that create certainty and level the playing field among all companies.

While substantial progress has been made, too few investors are seriously addressing the risks and opportunities posed by climate change, and most investment managers lack expertise in climate change or the capacity to assess its risks to portfolios. While some companies have begun to treat climate change as a fundamental strategic issue, many more are not disclosing their climate risk or plans to address it, creating uncertainty for investors and difficulty assessing the true longer-term value of our portfolios.

We are more firmly convinced than ever that climate change presents a material risk to investment portfolios, especially as policies to limit emissions, such as the Kyoto Protocol and various state initiatives, take hold. Indeed, prudence, common sense, fiduciary responsibility, and legal duty compel us to examine the financial ramifications of climate risk with care, and where appropriate, to act.

As fiduciaries of hundreds of billions of dollars of fund assets, we are compelled to renew previous efforts and take additional steps to respond to the challenges and opportunities presented by climate risk. It is our intention to use the knowledge we have gained, in the absence of clear policy, to encourage disclosure that will better enable us to measure our risks as shareholders due to climate change.

Managing Climate Risk and Capturing the Opportunities: A Renewed Call for Action

Recognizing that climate change embodies risks and opportunities of a significant magnitude for investors and our economy, and represents one of the greatest challenges facing our planet, we are compelled to seek improved approaches in responding to the fiscal ramifications of climate risk for institutional investors, fund managers and financial advisors, companies, and others. Therefore, we call on each of these sectors to respond, affirmatively and definitively, and state our intention to move forward to implement this essential agenda.

^{1.} Phil Angelides, Treasurer, State of California; Randall Edwards, Treasurer, State of Oregon; Dale McCormick, Treasurer, State of Maine; Denise Nappier, Treasurer, State of Connecticut; Jeb Spaulding, Treasurer, State of Vermont; Robert Vigil, Treasurer, State of New Mexico; Alan Hevesi, Comptroller, State of New York; William Thompson, Comptroller, New York City; Steve Abrecht, Executive Director, National Industry Pension Fund, Service Employees International Union (SEIU); and William J. Boarman, Chairman of the Board of Trustees, CWA/ITU Negotiated Pension Plan.

Institutional investors

- Call to Action: Invest capital, individually or collectively, in companies developing and deploying clean technologies.
 - **Our Commitment:** Our collective goal in the next year is to unlock \$1 billion of capital to achieve attractive investment returns over the long term and help catalyze adoption of clean technology in the broader marketplace.
- **2. Call to Action:** Support for and success of appropriate shareholder resolutions and company engagement to improve corporate disclosure and governance on climate risk.
 - **Our Commitment:** We will develop through the Investor Network on Climate Risk (INCR) a model climate risk policy for institutional investors. This policy will specifically address shareholder resolutions, proxy voting, and corporate dialogue on climate risk. We will share the policy with other institutional investors and with fund managers.
- **3. Call to Action:** Adopt a reliable and generally accepted global standard for disclosure of climate risk. **Our Commitment:** We pledge to work with investors around the world to develop such a standard.
- **4. Call to Action:** Promote information sharing among the growing number of institutional investors and organizations around the world concerned about climate risk.
 - Our Commitment: We will build a new forum for international investor collaboration on climate risk.

Fund managers and financial advisors

with climate change.

- 5. Call to Action: Improve capacity to assess climate risk.
 Our Commitment: We will require and validate that relevant investment managers, seeking to manage our fund assets, describe the resources, expertise and process that they use to assess the risks associated
- 6. Call to Action: Improve mutual fund engagement in addressing climate risk.
 Our Commitment: INCR will publish an annual scorecard showcasing how mutual funds vote on climate change shareholder resolutions.

Companies

- 7. Call to Action: All publicly-held companies in the auto, electric power, and oil and gas sectors should follow the lead of some companies and report within a year how likely scenarios for climate change, future greenhouse gas limits, and dwindling access to inexpensive energy will affect their businesses and competitiveness, and to identify steps they are taking to reduce those financial impacts and seize new emerging market opportunities.
 Our Commitment: We will engage with these companies to consider and address climate risk.
- **8. Call to Action:** Renew dialogue between investors and all companies that have already disclosed their climate risk to focus on steps that investors and companies can take to address this risk. **Our Commitment:** We will engage with companies, recognize leaders, and promote best practices.
- 9. Call to Action: Help investors assess climate risk.
 - **Our Commitment:** Through INCR, we will produce the "Corporate Governance Score Card on Climate Risk", an annual corporate governance scorecard of 100 large emitters of greenhouse gases. We will distribute this scorecard throughout the investor community by the end of 2005. This report will inform them of the efforts that companies and their boards of directors are taking to consider and address climate risk.

Government

10. Call to Action: The Securities and Exchange Commission (SEC) to require that companies disclose the risk associated with climate change as part of their securities filings.

Our Commitment: We will work with the SEC to disclose climate risk.



2005 Investor Call for Action on Climate Risk - SIGNERS AS OF 5/5/05

State Treasurers

Phil Angelides, Treasurer, State of California Randall Edwards, Treasurer, State of Oregon Nancy Kopp, Treasurer, State of Maryland David Lemoine, Treasurer, State of Maine Denise Nappier, Treasurer, State of Connecticut Jeb Spaulding, Treasurer, State of Vermont Robert Vigil, Treasurer, State of New Mexico

State and City Comptrollers:

Alan G. Hevesi, New York State Comptroller **William Thompson**, Comptroller, New York City **Steve Westly**, Controller, State of California

Public Pension Funds:

Jack Ehnes, CEO, California State Teachers' Retirement System (CalSTRS) Edward Smith, Chairman, Illinois State Board of Investment

Labor Pension Funds:

Steve Abrecht, Executive Director, National Industry Pension Fund, Service Employees International Union (SEIU)

William J. Boarman, Chairman of the Board of Trustees, CWA/ITU Negotiated Pension Plan

R. Thomas Buffenbarger, President, International Association of Machinists

M. Benny Hernandez, Administrator, Sheetmetal Workers Pension Fund

C. Thomas Keegel, General Secretary Treasurer, International Brotherhood of Teamsters; Trustee, Teamsters Affiliates Pension Plan

Bruce Raynor, Secretary, UNITE HERE National Retirement Fund (Union of Needletrades, Textiles and Industrial Employees and Hotel Employees and Restaurant Employees International Union)

Foundations:

Lance E. Lindblom, President and CEO, The Nathan Cummings Foundation

Religious Funds:

William Somplatsky-Jarman, Presbyterian Church (USA)

European Investor Supporters of the Call for Action:

Sir Graeme Davies, Chairman, Universities Superannuation Scheme Peter Scales, Chair, Institutional Investor Group on Climate Change Neil Newton, Chair, London Pensions Fund Authority



CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

MINUTES OF MEETING OPEN SESSION

May 16, 2005

The Investment Committee met on Monday, May 16, 2005 in the Lincoln Plaza Building, 400 P Street, Auditorium, Sacramento, California.

The meeting was called to order at approximately 9:15 a.m. and the following members were present:

Charles Valdes, Chair
George Diehr, Vice Chair
Ron Alvarado
Philip Angelides, represented by Ted Eliopoulos
Marjorie Berte
Robert F. Carlson
Rob Feckner
Priya Mathur
Michael Navarro
Mike Quevedo, Jr.
Kurato Shimada
Steve Westly

Toni Symonds represented Steve Westly

Investment Committee members absent: Willie L. Brown, Jr.

AGENDA ITEM 2 - APPROVAL OF AGENDA

The agenda was approved and at the Controller's request Items 6a(4) and 7 were addressed upon his arrival.

AGENDA ITEM 3 – APPROVAL OF APRIL 18, 2005 MEETING MINUTES

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** that the April 18, 2005 Open Session minutes be approved as presented.

Ms. Berte abstained

Robert Toigo Foundation Recognition

Chairman Valdes provided a brief history of CalPERS' involvement with the Foundation, which was created in 1989 to increase diversity representation of the financial industry through scholarships, mentoring, internship and job placement. To date the Foundation has successfully graduated and placed 420 fellows in the financial services industry. Angela Lyons, Foundation alumni, was introduced and commented regarding her experience with the Foundation and her current position with the CalPERS Investment Office. A CalPERS recognition resolution commending the Foundation was presented to Nancy Sims, Executive Director.

AGENDA ITEM 4 – REAL ESTATE

There were no items to report

AGENDA ITEM 5a – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM, AIM Delegated Authority

Mark Anson, Chief Investment Officer, and Leon Shahinian, Senior Investment Officer, presented the item. In light of recent trends in the private equity market, staff believes changes to certain sections of the delegation resolution are warranted to facilitate investments in a manner that is designed to improve the AIM Program's rate of return, diversification, and ability to move quickly where it is warranted, consistent with Board policy.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve the amended Delegation Resolution #00-02-BD as presented in Attachment 1 of the agenda item.

The Chair directed staff to provide at a future meeting an item that would explore removing delegated limitations and provide communication and notification alternatives.

AGENDA ITEM 6a(1) – PUBLIC MARKETS – GLOBAL EQUITY, Manager Development Program (MDP) Annual Review

Christy Wood, Senior Investment Officer, Mary Cottrill, Senior Portfolio Manager, and Derek Hayamizu, Portfolio Manager, presented the item. Roz Hewsenian, Wilshire Associates, was available to respond to questions from the Committee.

The MDP program has completed the investment phase. The remainder of the program will be devoted to developing the current MDP firms and preparing for the final phase, maturity and liquidation. Overall performance results are improving and staff continues to work with both MDP partners to address manager performance issues. The MDP II Strategic Advisor RFP is expected to be completed in June, with implementation to begin during the third quarter of 2005.

There was a discussion regarding format of data presentation and suggested changes for future reports. The Chair also directed staff to report back regarding the use of minority brokerage firms.

The Committee accepted the informational report.

AGENDA ITEM 6a(4) – PUBLIC MARKETS – GLOBAL EQUITY, Investor Network on Climate Risk – Call for Action

Mark Anson, Chief Investment Officer, Christy Wood, Senior Investment Officer, and Bill McGrew, Portfolio Manager, presented the item. Staff sought direction as to whether the Committee wished to include CalPERS as a 2005 signatory on the "Call for Acton" by the Investor Network on Climate Risk. The "Call for Action" is an effort to address the financial risks and investment opportunities posed by climate change.

On **MOTION** by Mr. Westly, **SECONDED** and **CARRIED** to approve:

- Committing to the Investor Network on Climate Risk (INCR) Ten-Point Call to Action.
- That staff be given latitude regarding implementation and report back in August.
- That relevant investment managers be defined as managers under the CalPERS Global Equity Environmental Program.
- That CalPERS engage with companies in a manner consistent with CalPERS Environmental Program to consider and address climate risks.

AGENDA ITEM 7 – LEGISLATION, Assembly Constitutional Resolution 11 (Investments in Sudan)

Karen Neuwald, Office of Governmental Affairs Chief, presented the item.

ACR 11 encourages CalPERS and CalSTRS, whenever feasible and consistent with their fiduciary responsibility, to encourage companies in which employee retirement funds are invested and that are doing business in Sudan, as identified by the Department of the Treasury's Office of Foreign Assets Control, to act responsibly and not take actions that promote or otherwise enable human rights violations in Sudan.

There was discussion about:

• CalPERS' policy to take a neutral position on legislation that does not significantly affect the benefit interests of CalPERS' stakeholders, nor significantly impact CalPERS benefits or the administration of the system.

- That at the request of CalPERS the author amended the bill to include appropriate language that basically provides the balance on the Board's responsibility and fiduciary efforts in investments, but also recognizes the situation in Sudan.
- The need for CalPERS to spotlight world attention on the human rights tragedy that
 is occurring in Sudan. It was suggested that a strategy be developed to
 appropriately call attention to issues of global concern like this in the future.
- That CalPERS continue to urge the Federal Government to do a better job of reporting on companies that may be engaged in countries that are identified as terrorist threats. It was suggested that CalPERS explore joining with other major pension funds to find a reputable firm that can provide information that would identify corporations doing business in the Sudan.

On **MOTION** by Mr. Westly, **SECONDED** and **CARRIED** to approve a support position on ACR 11 (Dymally) as amended April 18, 2005.

AGENDA ITEM 6a(2) – PUBLIC MARKETS – GLOBAL EQUITY, Emerging Markets – Permissible Equity Market Update and Manager Company Reports

Mark Anson, Chief Investment Officer, Christy Wood, Senior Investment Officer, and Geraldine Jimenez, Investment Officer, presented the item. Roz Hewsenian, Wilshire Associates, was available to respond to questions from the Committee.

The Geopolitical and Investability Screening Reports were presented by representatives from the following companies:

- Alliance Bernstein International Bonnie Orlowski and Henry D'Auria
- Dimensional Fund Advisors Damon Fisher, Akbar Ali, and Michelle Lapoula
- Genesis Asset Managers Catherine Vlasto and Paul Greatbatch

The Committee provided input regarding preferred level of detail for future reports. Staff was asked to provide a comparison analysis that highlights some of the judgment calls that are being made by the managers and whether the intent of the Board's policy is being met. An analysis of this year's reports will be provided to the Committee and will be included for future reports.

The Committee accepted the informational report.

The meeting recessed from 11:20 to 11:30 a.m.

AGENDA ITEM 6a(3) – PUBLIC MARKETS – GLOBAL EQUITY, Delegation of Proxy Voting

Christy Wood, Senior Investment Officer, Bill McGrew, Portfolio Manager, Aeisha Mastagni, Investment Officer, presented the item. Peter Mixon, General Counsel, was available to respond to guestions from the Committee.

On **MOTION** by Mr. Eliopoulos, **SECONDED** and **CARRIED** to approve expanded staff delegation to execute all proxies and voting instructions in a manner that is consistent with the Board's Global Proxy Voting Principles, including the documents referenced therein, by amending *Section IV*, *Implementation of Principles* as follows:

- 1. Affirm implementation of CalPERS' Global Proxy Voting Principles will occur <u>unless</u> such a vote may result in long-term harm to the company; and
- 2. Add implementation of CalPERS' Global Proxy Voting Principles will occur <u>unless</u> such a vote is contrary to the interests of the members and beneficiaries of the CalPERS system under the Board's fiduciary duties.

Mr. Navarro abstained.

AGENDA ITEM 6a(5) – PUBLIC MARKETS – GLOBAL EQUITY, Corporate Governance Internal Staff Working Group

There were no items to report.

AGENDA ITEM 6b(1) – PUBLIC MARKETS – FIXED INCOME, External High Yield Manager Annual Review

Curtis Ishii, Senior Investment Officer, and Kevin Winter, Senior Portfolio Manager, presented the item. Roz Hewsenian, Wilshire Associates, was available to respond to questions from the Committee.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to renew the contracts for all four of CalPERS' external high yield managers for a period of one year. The four managers are:

- Highland Capital Management L.P.
- ING Ghent Asset Management, LLC
- Nomura Asset Management Inc.
- Pacific Investment Management Company

The Chair directed staff to report back concerning securities lending in light of corporate governance issues.

AGENDA ITEM 8a – CHIEF INVESTMENT OFFICER'S / ASSISTANT EXECUTIVE OFFICER'S REPORT, Consolidated Investment Activity Report

Mark Anson, Chief Investment Officer, presented the item.

The Committee accepted the Consolidated Investment Activity Report. The total market value of the fund as of March 31, 2005, was approximately \$182.2 billion and the total book value was approximately \$141.0 billion.

AGENDA ITEM 8b - CHIEF INVESTMENT OFFICER'S / ASSISTANT EXECUTIVE OFFICER'S REPORT, Master Custody Services Update and Request for Proposal

Greg Hood, Division Chief, presented the item. Staff reported they are amending the State Street Bank contract to exercise the final one-year option, which will expire June 30, 2006, and to contain provisions to increase performance reporting services from monthly to daily. Staff is also initiating a competitive selection process for Master Custodian services to be completed before the June 30, 2006 contract expiration date.

The Committee accepted the informational report.

During the meeting Committee members noted inconsistencies of reporting format for manager performance and data presentation. Staff was asked to standardize and simplify all program reports to provide comprehensive information.

AGENDA ITEM 9 - DRAFT JUNE 2005 AGENDA

The Committee accepted the proposed June 13, 2005 agenda.

AGENDA ITEM 10 - PUBLIC COMMENT

Ben Alberger, Stanford Students Taking Action Now: Defur (STAND), thanked the Committee for taking a support position on ACR 11.

The meeting was adjourned at 12:00 p.m.

The next meeting of the Committee is scheduled for June 13, 2005 in Sacramento, California.

FRED BUENROSTRO
Chief Executive Officer